



2022 Investor Session

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Financial Discussion

Ken Stillwell | COO & CFO

Financial Outlook



Massive Market Opportunity



Transition to Cloud Underway



High Growth, Recurring Model



Margin Expansion Opportunities

Pursuing a Massive Market Opportunity in Platform & CRM



Transition to Cloud Well Underway: While Underlying Growth is Increasing

From...

- Perpetual
- Less Predictable
- Lower Growth & Margins



To...

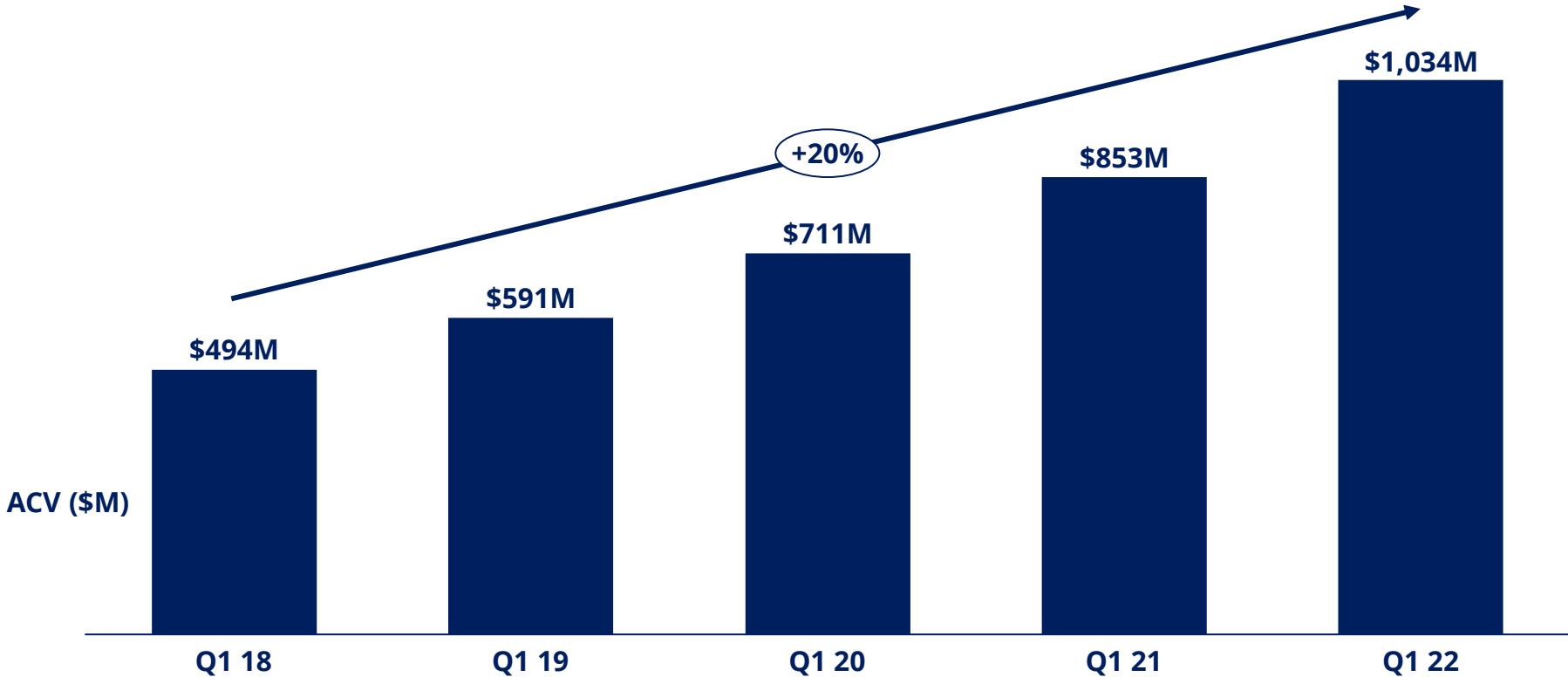
- Recurring
- More Predictable
- Progressing Toward Rule of 40



Transition to Cloud Underway: Key Growth Metrics During the Transition

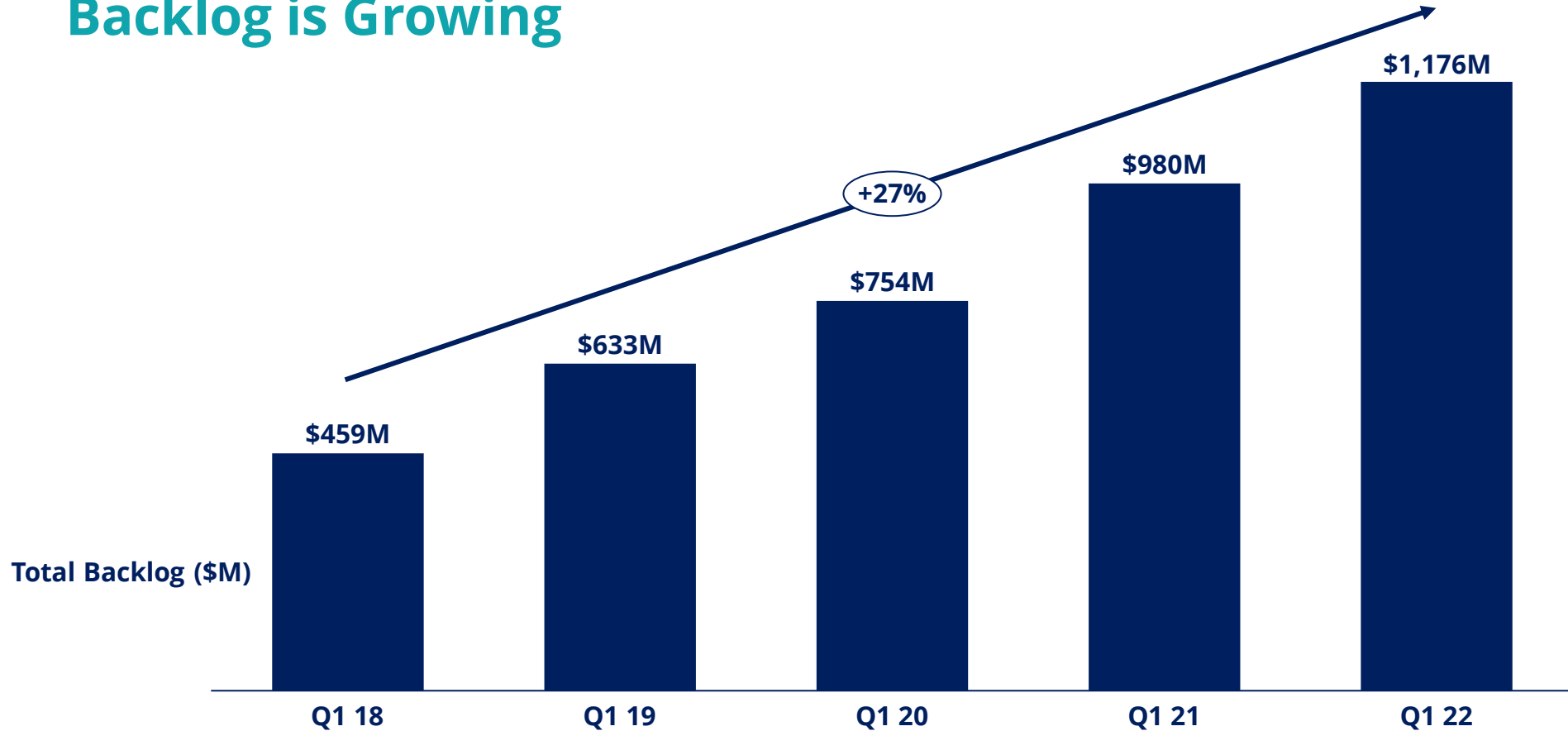
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1. Annual Contract Value (ACV) Growth
 2. Remaining Performance Obligation (RPO) – also known as Backlog

Transition to Subscription Nearly Complete: Focus on Total ACV Growth as Leading Indicator

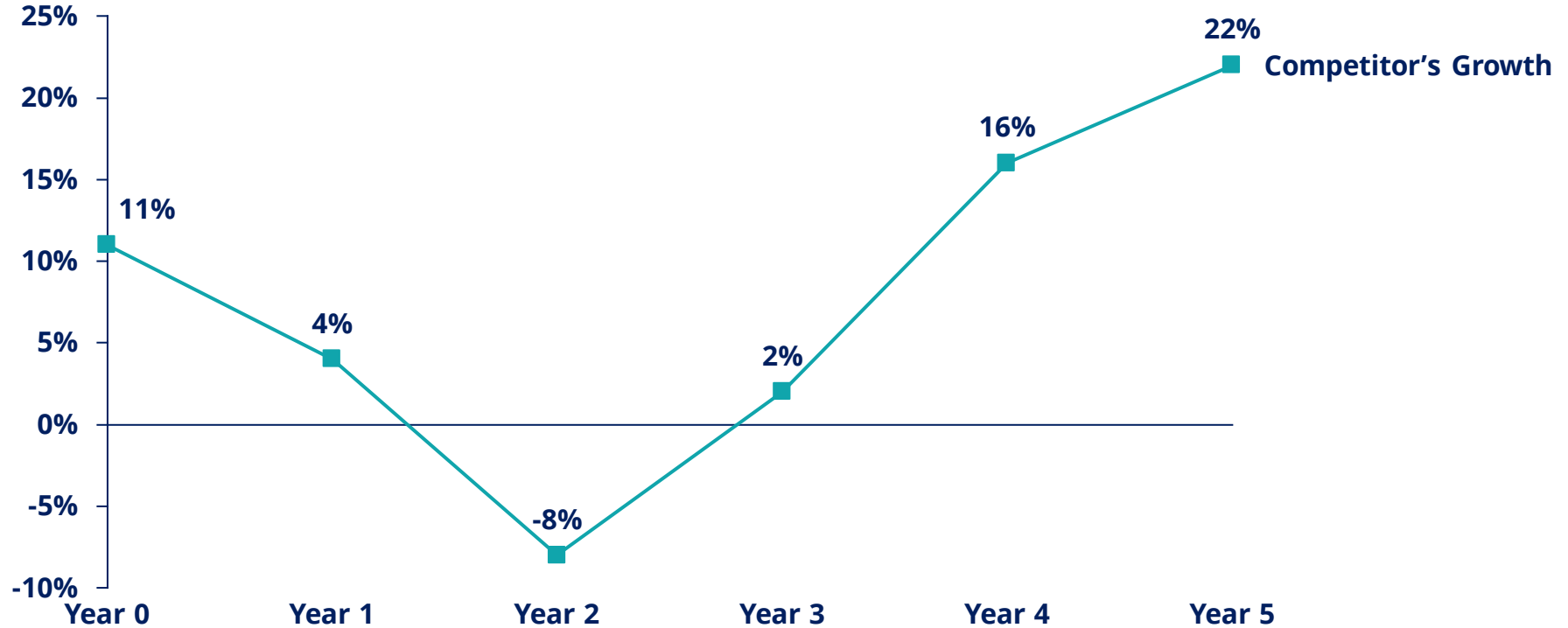


ACV represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV for subscription license and Pega Cloud contracts. Maintenance revenue for the quarter then ended is multiplied by four to calculate ACV for maintenance. ACV is a performance measure that we believe provides useful information to our management and investors, particularly during our subscription transition. Foreign currency exchange rate changes were a 1% to 2% headwind to ACV growth since March 31, 2021.

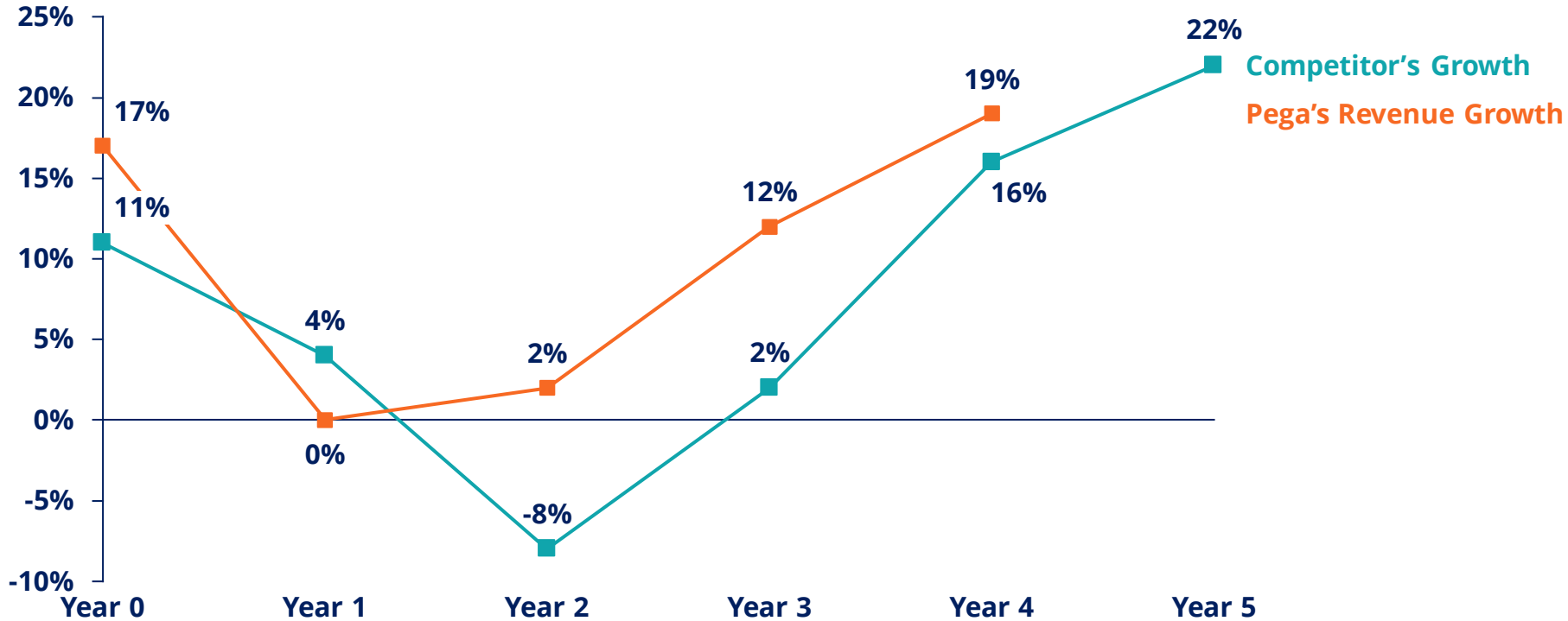
Remaining Performance Obligation (RPO) / Backlog is Growing



Example Competitor's Journey: Revenue Growth During a Cloud Transition



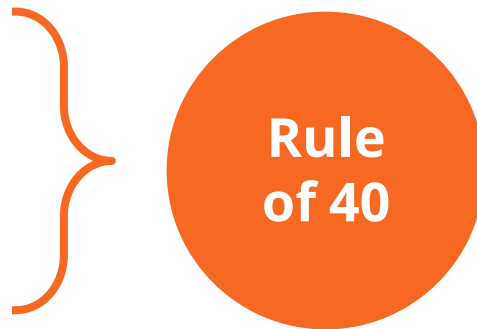
Example Competitor's Journey vs Pega: Pega's Growth During Its Cloud Transition vs Competitor



Rule of 40: Timeless Model Measurement

ACV Growth

Free Cash Flow (FCF) Margin*



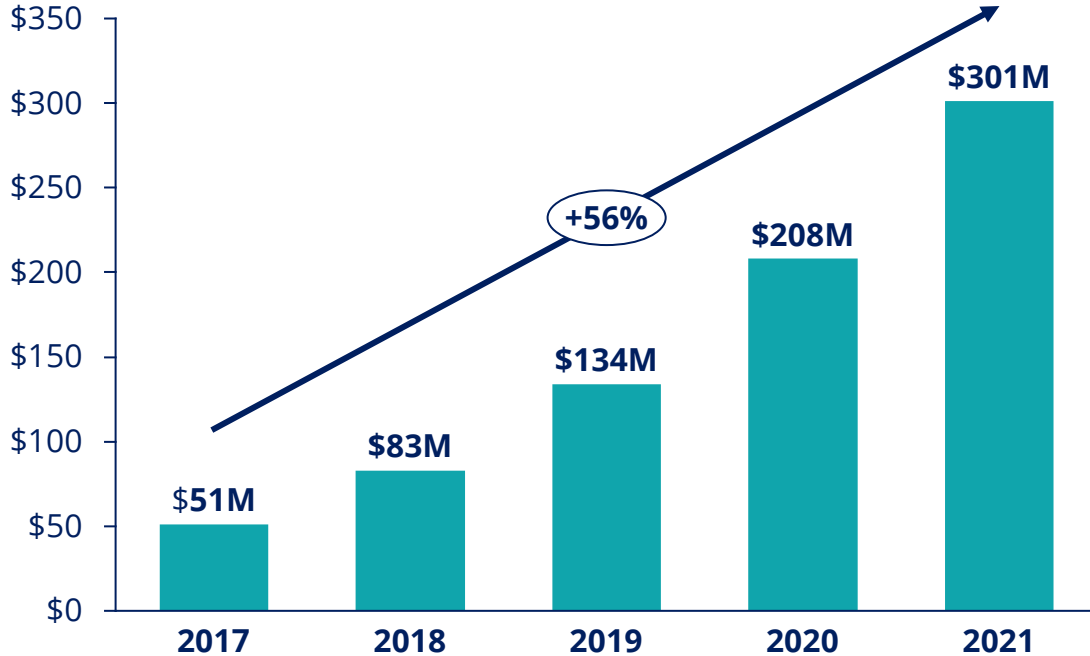
Key Levers to Achieving Rule of 40



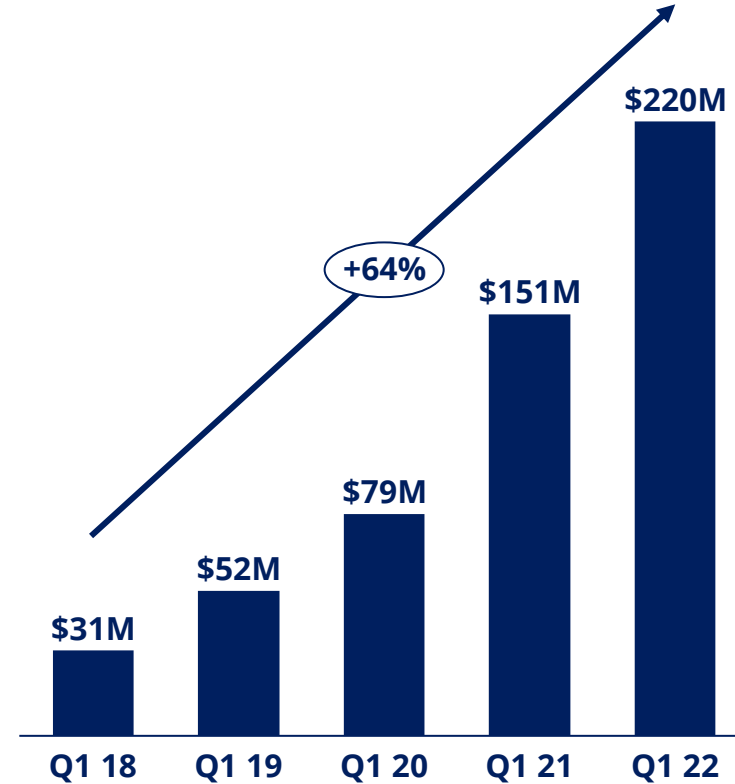
- 1 **Pega Cloud Gross Margin**
- 2 **Sales & Marketing OpEx**

Margin Expansion Opportunities: Cloud Margin

Pega Cloud Margins Improve with Scale



Four-Year Pega Cloud Revenue % Change



Pega Cloud Gross Margins (\$ TTM)

Financial Outlook & Model

As we prepare to exit the transition

Near-term:

- Less complicated revenue optics
- Focus on Total ACV growth as leading indicator
- Pega Cloud backlog growth as a confirming metric

2017

2025

Longer-term:

- Increasingly predictable revenue and cash flows

Tracking to “Rule of 40”

All financial metrics are presented as Non-GAAP

	2017 Actual	2021 Actual	2025 Target		
			Downside Case	Base Case	Upside Case
ACV Growth ¹	14%	20%	15%	19%	22%
Revenue Growth ¹	17%	19%	15%	18%	21%
Gross Margin	71%	74%	78%	79%	79%
Free Cash Flow Margin	16%	2%	22%	21%	20%
“Rule of 40”	30%	22%	37%	40%	42%
Key Drivers					
Pega Cloud Gross Margin	55%	68%	<----- 77% ----->		
Sales & Marketing Growth ¹	7%	16%	7%	10%	14%
S&M Cost per \$ of Net ACV Add	n/a	\$3.5	\$3.3	\$2.6	\$2.2

By 2025, project Pega Cloud ACV to be larger than Client Cloud ACV

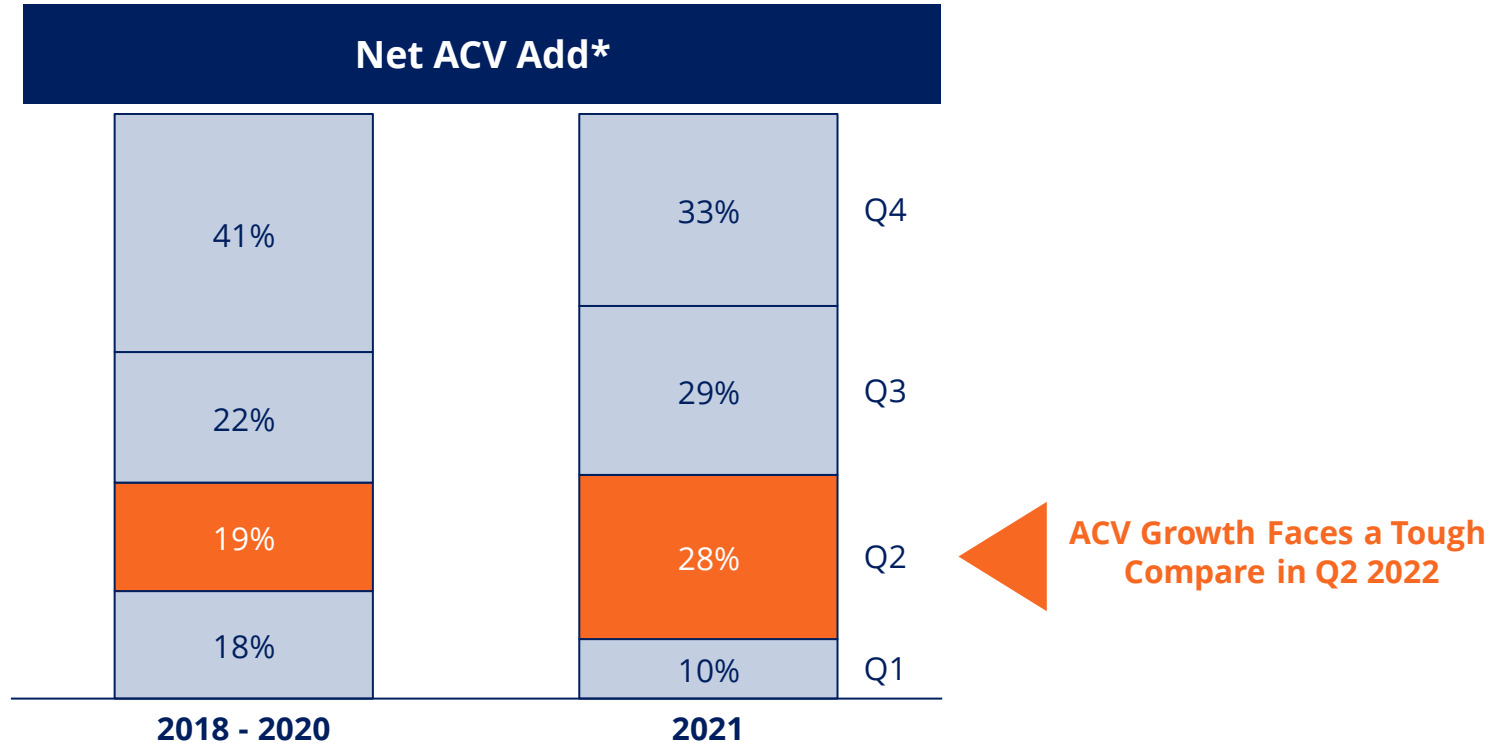
Driving greater efficiency in our sales and marketing expenses across all three scenarios



1. Growth shown is compound annual growth rate (CAGR) for 2021 – 2025
 2. Rule of 40 is the sum of ACV Growth and Free Cash Flow margin

Net ACV Add is Strongest in Q4 from 2018 to 2021

ACV add in Q2 2021 was unusually strong

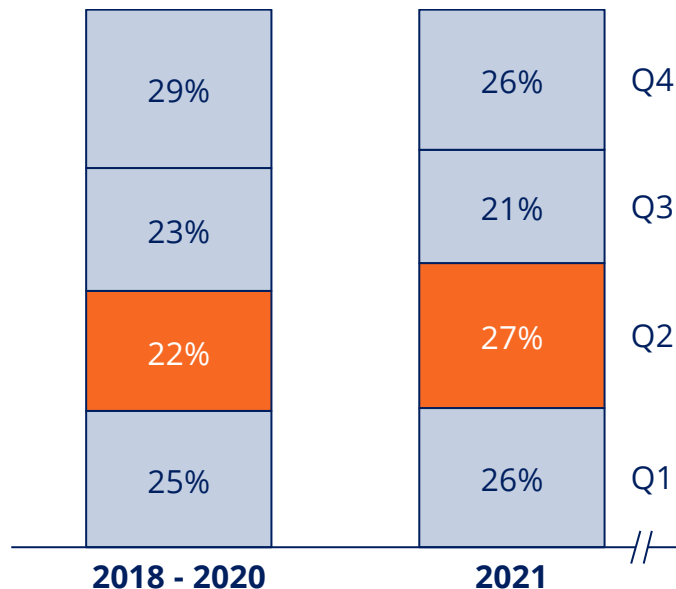


*Net ACV add equals the change in ACV from the current reported quarter versus the prior reported quarter as a percentage of the total change in ACV for the current reported year. For example, Q1 2022 versus Q4 2021. For 2018-2020, chart shows total net ACV add for each quarter as a percentage of total net ACV add for each year for all three years combined.

Quarterly Revenue Historically Strongest in Q1 & Q4

Significant Client Cloud deal increased reported revenue by over \$30M in Q2 2021

Total Revenue 2018 to 2021*



Observations

- Reported revenue has often been strongest historically in Q1 and Q4 and softer in Q2 and Q3
- Significant Client Cloud deal in Q2 2021 increased reported revenue by over \$30M
- Pega Cloud booking mix in Q1 2022 (67%)

Impact of Pega Cloud Booking Mix on Full-Year Revenue & EPS

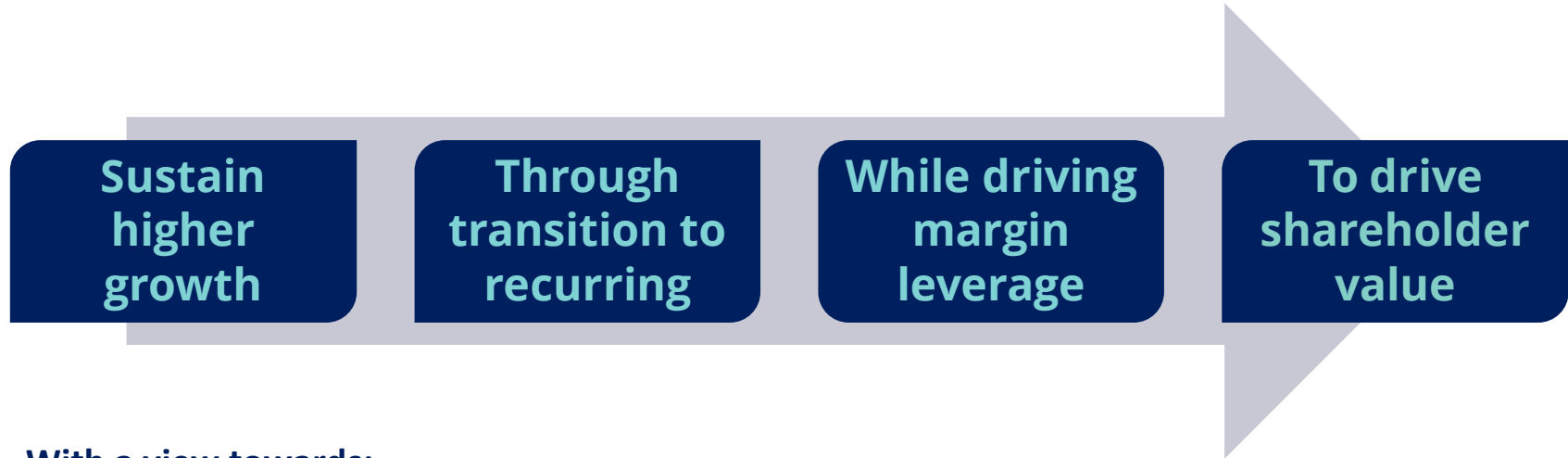
Increase in Pega Cloud Mix	Change in 2022 Revenue	Change in 2022 GAAP EPS	Change in 2022 Non-GAAP EPS
+10%	(\$40M)	(\$0.37)	(\$0.36)
+20%	(\$80M)	(\$0.74)	(\$0.72)

Pega Cloud was 67% of new client commitments in Q1 2022

Actively managing our costs to offset portion of EPS impact

What Does this All Mean?

Strive to build a growing, recurring business to drive increased value



With a view towards:

- Capitalizing on high-growth markets
- Driving ACV growth
- Balancing growth & margin
- Continuing our technology leadership
- Leveraging Cloud Choice differentiation
- “Rule of 40”
- Improving sales productivity

Q&A

Appendix

Tracking to “Rule of 40”

GAAP to Non-GAAP Reconciliation

	2017 Actual	2021 Actual	2025 Target		
			Downside Case	Base Case	Upside Case
Gross Margin - GAAP	69%	72%	75%	76%	76%
Stock-based Compensation & Amortization of intangible assets	2%	2%	3%	3%	3%
Gross Margin - Non-GAAP	71%	74%	78%	79%	79%
Pega Cloud Gross Margin - GAAP	53%	67%	<----- 76% ----->		
Stock-based Compensation	2%	1%	<----- 1% ----->		
Pega Cloud Gross Margin - Non-GAAP	55%	68%	<----- 77% ----->		
Sales & Marketing Growth¹ - GAAP	8%	15%	6%	9%	13%
Stock-based Compensation & Amortization of intangible assets	-1%	1%	1%	1%	1%
Sales & Marketing Growth - Non-GAAP	7%	16%	7%	10%	14%